

**CASS COUNTY MEMORIAL HOSPITAL**  
**INDEPENDENT AUDITOR'S REPORT**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

# CASS COUNTY MEMORIAL HOSPITAL

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CASS COUNTY MEMORIAL HOSPITAL

Officials  
June 30, 2014

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Ned Brown, Chairman	Atlantic, Iowa	2014
Jerry Putnam, Vice-Chairman	Griswold, Iowa	2014
Leanne Pellett, Secretary and Treasurer	Atlantic, Iowa	2014
John Molgaard	Atlantic, Iowa	2016
Phyllis Stakey	Massena, Iowa	2016
Roger Herring	Atlantic, Iowa	2018
Julie Pollock	Anita, Iowa	2018

Administrator/CEO:

Patricia A. Markham  
(Retired January, 2014)

Todd Hudspeth  
(Started January, 2014)

Atlantic, Iowa

Assistant Administrator/CFO:

Stephen Lewis  
(Resigned June, 2014)

Susan Daniels  
(Started July, 2014)

Atlantic, Iowa

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Cass County Memorial Hospital  
Atlantic, Iowa

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of Cass County Memorial Hospital as of June 30, 2014 and 2013 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees  
Cass County Memorial Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Bases for Qualified Opinion**

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Hospital's healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note P).

The financial statements do not include financial data for the Hospital's legally separate component units, Cass County Memorial Hospital Foundation and Cass County Medical Clinics. Accounting principles generally accepted in the United States of America require the financial data for the component units to be reported with the financial data of the Hospital unless the Hospital also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Hospital has not issued such reporting entity financial statements (Note A).

**Qualified Opinion**

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy and the effect of omitting the discretely presented and blended component units, as discussed in the previous section, the financial statements referred to above present fairly in all material respects, the financial position of Cass County Memorial Hospital as of June 30, 2014 and 2013 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Report on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3d and on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees  
Cass County Memorial Hospital

*Report on Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Cass County Memorial Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed qualified opinions on those financial statements. The supplementary information on pages 1 and 28 through 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2014 on our consideration of Cass County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

*Gmewoll, Ben, Kyhan & Co. P.C.*

Atlantic, Iowa  
October 8, 2014



**CASS COUNTY MEMORIAL HOSPITAL**  
**Atlantic, Iowa**  
**Management's Discussion and Analysis**

Management's discussion and analysis of the Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2014, 2013, and 2012. Please read it in conjunction with the Hospital's financial statements, which begin on page 4.

The Hospital is a Critical Access Hospital and the Clinics are Provider Based Rural Health Clinics, thus the Hospital and the Rural Health Clinics receive "cost based" reimbursement from Medicare and Medicaid.

The Hospital issued debt of \$23.5 million for the 2010 addition and remodeling of new inpatient, emergency room, rehab and surgical areas. The addition was completed at the end of June, 2012 and the remodeling was completed in March of 2013. The Hospital decided to add an in-house MRI and the remodeling for this project started in August 2013 and was completed in December 2013 for 1.97 million.

**USING THIS ANNUAL REPORT**

The Hospital's financial statements consist of three statements – Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

Statistical Analysis gives us an indication of Hospital utilization in certain areas. As with most rural hospitals, Cass County Memorial Hospital has seen a continued shift from "Inpatient utilization" to "Outpatient utilization." Thus, more procedures are done on an outpatient basis due to improved technology.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position help us understand if the Hospital as a whole is better or worse off as a result of this year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Both statements report the Hospital's net position and changes in them. The change in net position is a measure of the Hospital's "financial health," but you will need to consider other "nonfinancial" factors such as changes in the Hospital's patient base, measures in the quality of service, and local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities.

## **STATISTICAL ANALYSIS**

The Hospital experienced decreased utilization in Acute Care (12.9%), Skilled Care (17.8%), Nursery (13.8%) and Outpatient Occasions of Service (4.0%) compared to FY 2013. Utilization remained level with the prior year for the Behavior Health Unit and Rural Health Clinic Visits. This is summarized in Table 1.

**Table 1: Statistics**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Acute Care:			
Discharges	539	587	622
Patient Days	1,792	2,058	1,982
Skilled Care:			
Discharges	162	190	231
Patient Days	1,192	1,451	1,843
Behavior Health Unit:			
Discharges	168	214	214
Patient Days	1,023	1,021	1,098
Nursery:			
Patient Days	287	333	268
Outpatient Occasions of Service	59,367	61,836	63,791
Rural Health Clinic Visits	42,092	42,225	40,969

## **STATEMENT OF NET POSITION**

Net position increased 9% from \$29,037,052 to \$31,694,832. Total Current Assets increased 6%. Cash increased 18%. Net patient receivables increased 4% (48 Net Accounts Receivable Days). Current liabilities decreased 22% due a decrease in construction payables. Long term debt decreased 3%.



**Table 2: Assets, Liabilities, Deferred Revenue, Net Position**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 24,472,701	\$ 23,138,230	\$ 20,293,387
Capital assets, net	32,402,574	32,374,635	29,298,988
Other noncurrent assets	<u>3,436,747</u>	<u>4,536,003</u>	<u>7,605,818</u>
Total assets	<u>\$ 60,312,022</u>	<u>\$ 60,048,868</u>	<u>\$ 57,198,193</u>
Liabilities:			
Long-term debt outstanding	\$ 21,455,000	\$ 22,150,000	\$ 23,027,305
Other current and noncurrent			
Liabilities	<u>4,368,190</u>	<u>5,626,548</u>	<u>7,788,838</u>
Total liabilities	<u>\$ 25,823,190</u>	<u>\$ 27,776,548</u>	<u>\$ 30,816,143</u>
Deferred Revenue	<u>\$ 2,794,000</u>	<u>\$ 3,235,268</u>	<u>\$ --</u>
Net Position:			
Invested in capital assets, net of			
Related debt	\$ 10,211,836	\$ 9,364,653	\$ 9,310,482
Restricted	2,017,388	2,521,516	2,136,899
Unrestricted	<u>19,465,608</u>	<u>17,150,883</u>	<u>14,934,669</u>
Total net position	<u>\$ 31,694,832</u>	<u>\$ 29,037,052</u>	<u>\$ 26,382,050</u>

**STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET POSITION**

Patient Service Revenue increased 6% from last fiscal year. Inpatient revenue decreased 1%, Swing Bed decreased 11%, Behavioral Health decreased 14%, Outpatient increased 11% and the Rural Health Clinic decreased .3%.

Contractual adjustments to Patient Service Revenue increased 16%. Adjustments for bad debt increased 5%, uncompensated care decreased 1% and Rural Health Clinic adjustments decreased 11%.

Expenses increased 2%. Salary expense decreased 6%, employee benefits decreased 8%, professional fees increased 21%, supplies and other expense increased 10%, depreciation increased 11%.

The Hospital had a net operating loss of \$610,066 compared to a net operating loss of \$385,162 in FY 2013. This is consistent with the Hospital's operating history. In 1966, when operations began as a county hospital, it was agreed that a portion of its cost would be subsidized by property tax revenues, making the facility more affordable for the county's lower income residents. Nonoperating revenue (which includes County tax support) increased by 15% due to an increase in retail pharmacy income. The excess of revenue over expense increased from \$2,655,002 to \$2,657,780 (5% total margin).

**Table 3: Revenues, Expenses & Changes in Net Position**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Patient service revenue	\$ 53,423,323	\$ 50,421,417	\$ 46,792,586
Adjustments to patient service revenue	( 19,996,742)	( 17,750,261)	( 16,582,150)
Net patient service revenue	33,426,581	32,671,156	30,210,436
Other operating revenue	638,342	798,999	758,766
Total operating revenues	<u>34,064,923</u>	<u>33,470,155</u>	<u>30,969,202</u>
Operating Expenses:			
Salaries	13,289,537	14,091,919	13,976,127
Employee benefits	4,377,523	4,759,748	4,440,091
Professional fees	5,359,484	4,438,482	3,792,351
Supplies and other expense	8,434,137	7,678,033	7,478,356
Depreciation	3,214,308	2,887,135	1,494,205
Amortization	--	14,609	--
Total operating expenses	<u>34,674,989</u>	<u>33,855,317</u>	<u>31,181,130</u>
Operating loss	( 610,066)	( 385,162)	( 211,928)
Nonoperating Revenue and Expense:			
Property taxes	2,161,848	2,121,802	1,963,859
Other Nonoperating revenue and Expense	<u>1,105,998</u>	<u>918,362</u>	<u>1,390,540</u>
Total Nonoperating revenue And expense	<u>3,267,846</u>	<u>3,040,164</u>	<u>3,354,399</u>
Excess of Revenues Over Expenses	2,657,780	2,655,002	3,142,471
Net Position Beginning of Year	<u>29,037,052</u>	<u>26,382,050</u>	<u>23,239,579</u>
Net Position End of Year	<u>\$ 31,694,832</u>	<u>\$ 29,037,052</u>	<u>\$ 26,382,050</u>

**STATEMENT OF CASH FLOWS**

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier. The Hospital received cash from patient and third party payors of \$33,229,845 along with other revenue of \$620,761. Cash paid out to suppliers was \$18,090,257 and employees was \$13,326,766. Net cash provided by operating activities was a positive \$2,433,583 compared to \$3,597,231 in FY 2013.

The net increase in cash and cash equivalents was \$579,931 which included a use of cash for capital expenditures for the construction and MRI projects, and principal and interest paid on the long-term debt, and cash provided by the Retail Pharmacy income.

## **BUDGETARY HIGHLIGHTS**

The official county budget of the Hospital for the year ended June 30, 2014 was prepared on a modified accrual basis. Revenue was .4% below budget and expense was 4% below budget. There was no amendment made to the county budget for the fiscal year.

## **CAPITAL ASSETS**

At the end of FY 2014, the Hospital had \$32,402,574 invested in capital assets, net of accumulation depreciation. In FY 2014 the Hospital had capital additions costing \$3,385,953. The Hospital construction in progress and computer system projects at June 30, 2014 was \$187,258.

## **DEBT**

The Hospital issued \$6,780,000 of Hospital Revenue Bonds (Series 2010A) in December, 2010 to pay the cost of expansion and renovation of the Hospital. These bonds are payable from revenues of the Hospital and final payment is due June, 2035. Interest at a rate of 7.25% is due semi- annually.

The Hospital issued \$16,720,000 of Hospital Revenue Bonds (Series 2010B) in December, 2010 to pay the cost of expansion and renovation of the Hospital. These bonds are payable from revenues of the Hospital. The bonds mature in annual installments beginning in June, 2013 through June, 2026 and installments due June, 2028 and June, 2033, with an interest rate of 2.6% - 10.0%. The Hospital is eligible to receive a 45% subsidy of interest paid from the Federal Government each year for these bonds. This subsidy was reduced approximately 8% this year due to the government sequester.

Under the terms of the Series 2010 bonds the Hospital is required to maintain certain deposits with a bank. The terms of the bonds also places limits on the incurrence of additional debt and requires the Hospital to satisfy certain measures of financial performance, Debt Service Ratio of 1.25 or greater and maintain greater than 60 days cash on hand as long as the bonds are outstanding starting in 2013. In FY 2014 the Debt Service Ratio was 3.03 and Days Cash on Hand were 174.

Total Long Term Debt outstanding at the end of FY 2014 totaled \$22,150,000.

## **CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact administration at Cass County Memorial Hospital, Atlantic, Iowa 50022.

CASS COUNTY MEMORIAL HOSPITAL  
Statements of Net Position  
June 30,

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash	\$ 14,062,341	\$ 11,889,026
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,802,000 in 2014, \$1,875,000 in 2013)	4,409,363	4,254,951
Other receivables	1,737,974	1,703,386
Inventory	613,453	588,916
Prepaid expense	631,629	501,536
Succeeding year property tax receivable	2,143,000	2,107,000
Internally designated assets	874,941	2,093,415
Total current assets	<u>24,472,701</u>	<u>23,138,230</u>
Designated and Restricted Assets:		
Internally designated assets	1,426,421	2,096,807
Restricted assets	2,017,388	3,613,673
	<u>3,443,809</u>	<u>5,710,480</u>
Less amounts required to meet current liabilities	874,941	2,093,415
	<u>2,568,868</u>	<u>3,617,065</u>
Capital Assets:		
Depreciable capital assets, net	31,779,753	31,841,560
Non-depreciable capital assets	622,821	533,075
	<u>32,402,574</u>	<u>32,374,635</u>
Investment in Cass County Medical Clinics, Inc.	92,192	124,391
Other Noncurrent Assets	<u>775,687</u>	<u>794,547</u>
Total assets	<u>\$ 60,312,022</u>	<u>\$ 60,048,868</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 695,000	\$ 865,799
Accounts payable	710,516	1,745,422
Accrued employee compensation	1,722,664	1,759,893
Payroll taxes withheld and accrued	469,807	453,158
Accrued interest payable	139,203	141,276
Other current liabilities	200,000	225,000
Estimated third-party payor settlements	431,000	436,000
Total current liabilities	<u>4,368,190</u>	<u>5,626,548</u>
Long-Term Debt:		
Bonds payable, less current maturities	<u>21,455,000</u>	<u>22,150,000</u>
Total liabilities	25,823,190	27,776,548
Deferred Inflows of Resources:		
Deferred revenue	2,794,000	3,235,268
Net Position:		
Invested in capital assets, net of related debt	10,211,836	9,364,653
Restricted - expendable	2,017,388	2,521,516
Unrestricted	<u>19,465,608</u>	<u>17,150,883</u>
	<u>31,694,832</u>	<u>29,037,052</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 60,312,022</u>	 <u>\$ 60,048,868</u>

CASS COUNTY MEMORIAL HOSPITAL  
Statements of Revenues, Expenses and Changes in Net Position  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Revenues:		
Net patient service revenue	\$ 33,426,581	\$ 32,671,156
Other revenue	<u>638,342</u>	<u>798,999</u>
Total revenue	34,064,923	33,470,155
Expenses:		
Nursing service	6,207,434	6,504,654
Other professional service	13,692,845	12,876,617
General service	2,696,112	2,568,146
Fiscal and administrative service	8,864,290	9,018,765
Provision for depreciation	<u>3,214,308</u>	<u>2,887,135</u>
Total expenses	<u>34,674,989</u>	<u>33,855,317</u>
Operating Loss	( 610,066)	( 385,162)
Non-Operating Revenues (Expenses):		
County taxes	2,161,848	2,121,802
Investment income	132,220	171,887
Federal interest subsidy	500,448	520,313
Medical office building rent, net	59,498	58,225
Southwest Iowa Mental Health Center services, net	139,777	97,032
Retail pharmacy income, net	1,654,091	1,276,984
Other rental income, net	30,523	30,051
Interest expense	( 1,620,312)	( 1,523,930)
Gain on construction settlement	124,971	--
Gain on disposal of assets	810	19,050
Non-operating revenue, net	<u>3,183,874</u>	<u>2,771,414</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	2,573,808	2,386,252
Capital Grants and Contributions	<u>83,972</u>	<u>268,750</u>
Excess of Revenues Over Expenses and Increase in Net Position	2,657,780	2,655,002
Net Position Beginning of Year	<u>29,037,052</u>	<u>26,382,050</u>
Net Position End of Year	<u>\$ 31,694,832</u>	<u>\$ 29,037,052</u>

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 33,229,845	\$ 33,535,680
Cash paid to suppliers	( 18,090,257)	( 16,643,505)
Cash paid to employees	( 13,326,766)	( 14,080,896)
Other revenue	<u>620,761</u>	<u>785,952</u>
Net cash provided by operating activities	2,433,583	3,597,231
Cash flows from noncapital financing activities:		
County tax revenue	2,161,848	2,121,802
Cash flows from capital and related financing activities:		
Capital expenditures	( 4,497,709)	( 5,767,294)
Capital grants and contributions	83,972	268,750
Proceeds from disposal of assets	810	19,050
Principal paid on long-term debt	( 865,799)	( 884,448)
Deferred construction settlement	--	361,268
Interest paid	( 1,696,311)	( 1,732,000)
Federal interest subsidy received	<u>500,448</u>	<u>520,313</u>
Net cash used in capital and related financing activities	( 6,474,589)	( 7,214,361)
Cash flows from investing activities:		
Investment income	143,014	167,987
Investment in Cass County Medical Clinics, Inc.	( 147,801)	( 26,877)
Decrease in designated and restricted assets	680,074	3,045,128
Rental income, received	136,362	135,631
Southwest Iowa Mental Health Center services, net	26,513	28,439
Retail pharmacy income, net	1,654,091	1,276,984
Change in other noncurrent assets	<u>( 33,164)</u>	<u>( 40,344)</u>
Net cash provided by investing activities	2,459,089	4,586,948
Net increase in cash and cash equivalents	579,931	3,091,620
Cash and cash equivalents at beginning of year	<u>15,512,462</u>	<u>12,420,842</u>
Cash and cash equivalents at end of year	<u>\$ 16,092,393</u>	<u>\$ 15,512,462</u>

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 14,062,341	\$ 11,889,026
Cash and cash equivalents in designated and restricted assets	<u>2,030,052</u>	<u>3,623,436</u>
	<u>\$ 16,092,393</u>	<u>\$ 15,512,462</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$( 610,066)	\$( 385,162)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	3,214,308	2,887,135
Amortization	52,024	14,609
Write-off CCMC investment	180,000	180,000
Expense computer system project	--	4,734
Component of operating revenue reclassified for purposes of reporting cash flows		
Interest income on operating funds	( 17,581)	( 13,047)
Change in assets and liabilities		
Accounts receivable	( 75,736)	412,524
Inventory	( 24,537)	( 138,021)
Prepaid expense	( 130,093)	49,113
Accounts payable, trade	11,844	116,164
Accrued employee compensation	( 37,229)	11,023
Payroll taxes withheld and accrued	16,649	6,159
Other current liabilities	( 25,000)	--
Estimated third-party payor settlements	( 5,000)	( 315,000)
Deferred EHR incentive payments	( 116,000)	767,000
Total adjustments	<u>3,043,649</u>	<u>3,982,393</u>
Net cash provided by operating activities	<u>\$ 2,433,583</u>	<u>\$ 3,597,231</u>

Non-Cash Transactions:

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities:

	<u>2014</u>	<u>2013</u>
Book value of equipment traded	<u>\$ --</u>	<u>\$ 23,795</u>

The accompanying notes are an integral part of these statements.



CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

The organization is a county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has two component units. Cass County Medical Clinics, Inc. (CCMC) is a component unit because three out of five board members are also board members of the Hospital and should be blended with the Hospital's financial statements. The Cass County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation and should be discretely presented. The Hospital has elected to exclude the financial information of its component units from these financial statements.

Following is a summary of the approximate assets, liabilities, net position, revenues, and expenses of the component units as of and for the years ended June 30, 2014 and 2013:

	CCMH		Foundation	
	2014	2013	2014	2013
Assets	\$ 651,000	\$ 576,000	\$ 952,000	\$ 792,000
Liabilities	\$ 709,000	\$ 714,000	\$ --	\$ --
Net Position	\$ ( 58,000)	\$ ( 138,000)	\$ 952,000	\$ 792,000
Revenues	\$ 4,430,000	\$ 3,774,000	\$ 333,000	\$ 424,000
Expenses	\$ 4,350,000	\$ 3,809,000	\$ 173,000	\$ 468,000

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market, except for general stores inventory which is valued at average cost.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest cost of \$73,926 was capitalized in 2014 (\$204,894 in 2013).

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 552 hours for full-time employees and 276 for part-time employees. Any excess over the maximum hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. The succeeding year property tax receivable has been recorded as a current asset and the related property tax revenue has been recorded as a deferred inflow of resources. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

16. Net Position

Net position of the Hospital is reported in the following three categories. *Invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* consists of noncapital assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note J. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

18. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68 "*Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27.*" This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the Hospital's proportionate share of the Iowa Public Employees Retirement System pension plan.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2013. The Medicaid cost reports have been audited through June 30, 2011. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE C - ENDOWMENTS AND RESTRICTED ASSETS

Restricted expendable assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Construction project	\$ --	\$ 1,092,157
Interest on Series 2010 Bonds	170,968	675,811
Principal on Series 2010 Bonds	<u>1,846,420</u>	<u>1,845,705</u>
	<u>\$ 2,017,388</u>	<u>\$ 3,613,673</u>

The Hospital has no restricted nonexpendable assets or endowments at June 30, 2014 or 2013.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2014</u>	<u>2013</u>
Construction project	\$ 1,092,157	\$ 4,007,559
Interest on bonds	1,692,198	1,709,618
Principal on bonds	<u>680,000</u>	<u>670,000</u>
	<u>\$ 3,464,355</u>	<u>\$ 6,387,177</u>

NOTE D - DESIGNATED ASSETS

Of the \$19,465,608 (\$17,150,883 as of June 30, 2013) of unrestricted assets as of June 30, 2014, \$1,426,421 (\$2,096,807 for 2013) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	<u>2014</u>	<u>2013</u>
Capital acquisitions and payment of long-term debt	\$ 198,758	\$ 876,170
Operations	<u>1,227,663</u>	<u>1,220,637</u>
	<u>\$ 1,426,421</u>	<u>\$ 2,096,807</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2014</u>	<u>2013</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 12,664	\$ 696,862
Certificates of deposit	1,226,812	1,219,946
Donated stock	186,095	179,308
Interest receivable	<u>850</u>	<u>691</u>
	<u>\$ 1,426,421</u>	<u>\$ 2,096,807</u>
Restricted Assets:		
Cash and cash equivalents	\$ 2,017,388	\$ 2,926,574
U.S. government securities	--	681,844
Accrued interest	<u>--</u>	<u>5,255</u>
	<u>\$ 2,017,388</u>	<u>\$ 3,613,673</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE F - FAIR VALUE MEASUREMENTS

The Hospital's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE F - FAIR VALUE MEASUREMENTS - Continued

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Hospital uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 1 inputs were available for all investments at June 30, 2014 and 2013.

*Level 1 Fair Value Measurements*

The fair value of the securities is based on quoted values of the shares held by the Hospital at year-end.

The following tables set forth, by level within the fair value hierarchy, the Hospital's investments at fair value as of June 30, 2014 and 2013:

		Fair Value Measurements at Reporting Date Using: <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
<u>June 30, 2014</u>	<u>Fair Value</u>	
Equity securities	\$ 186,094	\$ 186,094
<u>June 30, 2013</u>		
Equity securities	\$ 179,308	\$ 179,308
U.S. government securities	681,844	681,844
	<u>\$ 861,152</u>	<u>\$ 861,152</u>



CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Receivable from:		
Patients	\$ 2,679,528	\$ 2,627,932
Medicare	1,659,760	1,436,872
Medicaid	564,123	414,531
Blue Cross	777,532	864,904
Other commercial insurance carriers	224,886	365,056
Others	<u>305,534</u>	<u>420,656</u>
	6,211,363	6,129,951
Less allowances for doubtful accounts and contractual adjustments	<u>1,802,000</u>	<u>1,875,000</u>
	<u>\$ 4,409,363</u>	<u>\$ 4,254,951</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2014 and 2013 were as follows:

<u>Cost</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Adjustment/ Disposals</u>	<u>Balance 2014</u>
Land Improvements	\$ 2,731,063	\$ 80,610	\$ --	\$ 2,811,673
Buildings	30,869,382	--	96,217	30,773,165
Building Services Equipment	4,478,412	2,797,866	--	7,276,278
Medical Office Building	4,890,191	--	--	4,890,191
Fixed Equipment	2,595,264	--	--	2,595,264
Major Movable Equipment	14,934,860	417,731	64,628	15,287,963
Rural Health Clinic Equipment	<u>438,506</u>	<u>--</u>	<u>--</u>	<u>438,506</u>
	60,937,678	3,296,207	160,845	64,073,040
<u>Depreciation</u>				
Land Improvements	1,899,796	87,110	--	1,986,906
Buildings	6,707,998	1,574,079	--	8,282,077
Building Services Equipment	3,797,625	203,525	--	4,001,150
Medical Office Building	2,841,934	150,219	--	2,992,153
Fixed Equipment	2,450,852	34,927	--	2,485,779
Major Movable Equipment	10,980,471	1,209,044	64,628	12,124,887
Rural Health Clinic Equipment	<u>417,442</u>	<u>2,893</u>	<u>--</u>	<u>420,335</u>
Total Depreciation	<u>29,096,118</u>	<u>3,261,797</u>	<u>64,628</u>	<u>32,293,287</u>
Depreciable Capital Assets, Net	<u>\$ 31,841,560</u>	<u>\$ 34,410</u>	<u>\$ 96,217</u>	<u>\$ 31,779,753</u>
Construction in Progress	\$ 295	\$ 2,673,806	\$ 2,584,435	\$ 89,666
Computer System Projects	97,217	396,712	396,337	97,592
Land	<u>435,563</u>	<u>--</u>	<u>--</u>	<u>435,563</u>
Non-Depreciable Capital Assets	<u>\$ 533,075</u>	<u>\$ 3,070,518</u>	<u>\$ 2,980,772</u>	<u>\$ 622,821</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 2,285,761	\$ 445,302	\$ --	\$ 2,731,063
Buildings	25,357,357	5,512,025	--	30,869,382
Building Services Equipment	4,427,721	50,691	--	4,478,412
Medical Office Building	4,890,191	--	--	4,890,191
Fixed Equipment	2,627,694	--	32,430	2,595,264
Major Movable Equipment	14,713,066	934,218	712,424	14,934,860
Rural Health Clinic Equipment	<u>438,506</u>	<u>--</u>	<u>--</u>	<u>438,506</u>
	54,740,296	6,942,236	744,854	60,937,678
<u>Depreciation</u>				
Land Improvements	1,823,070	76,726	--	1,899,796
Buildings	5,360,575	1,347,423	--	6,707,998
Building Services Equipment	3,668,811	128,814	--	3,797,625
Medical Office Building	2,691,715	150,219	--	2,841,934
Fixed Equipment	2,445,979	37,303	32,430	2,450,852
Major Movable Equipment	10,478,525	1,190,575	688,629	10,980,471
Rural Health Clinic Equipment	<u>413,878</u>	<u>3,564</u>	<u>--</u>	<u>417,442</u>
Total Depreciation	<u>26,882,553</u>	<u>2,934,624</u>	<u>721,059</u>	<u>29,096,118</u>
Depreciable Capital Assets, Net	<u>\$ 27,857,743</u>	<u>\$ 4,007,612</u>	<u>\$ 23,795</u>	<u>\$ 31,841,560</u>
Construction in Progress	\$ 986,722	\$ 4,270,385	\$ 5,256,812	\$ 295
Computer System Projects	18,960	245,315	167,058	97,217
Land	<u>435,563</u>	<u>--</u>	<u>--</u>	<u>435,563</u>
Non-Depreciable Capital Assets	<u>\$ 1,441,245</u>	<u>\$ 4,515,700</u>	<u>\$ 5,423,870</u>	<u>\$ 533,075</u>

The Hospital rents a portion of the medical office building. Depreciation expense related to the rented space was \$47,489 for the year ended June 30, 2014 (\$47,489 for 2013).

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE I - LEASES

Assets recorded under capital leases consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Medical Equipment	\$ --	\$ 1,178,790
- Less: Accumulated Amortization	<u>--</u>	<u>971,497</u>
Net Book Value	<u>\$ --</u>	<u>\$ 207,293</u>

NOTE J - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2014 and 2013 follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>	<u>Current Portion</u>
Long-Term Debt:					
Bonds payable, Series 2010A	\$ 6,780,000	\$ --	\$ --	\$ 6,780,000	\$ --
Bonds payable, Series 2010B	<u>16,050,000</u>	<u>--</u>	<u>680,000</u>	<u>15,370,000</u>	<u>695,000</u>
Total Long-Term Debt	22,830,000	--	680,000	22,150,000	695,000
Capital Lease Obligations	<u>185,799</u>	<u>--</u>	<u>185,799</u>	<u>--</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$ 23,015,799</u>	<u>\$ --</u>	<u>\$ 865,799</u>	<u>\$ 22,150,000</u>	<u>\$ 695,000</u>
	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>	<u>Current Portion</u>
Long-Term Debt:					
Bonds payable, Series 2010A	\$ 6,780,000	\$ --	\$ --	\$ 6,780,000	\$ --
Bonds payable, Series 2010B	<u>16,720,000</u>	<u>--</u>	<u>670,000</u>	<u>16,050,000</u>	<u>680,000</u>
Total Long-Term Debt	23,500,000	--	670,000	22,830,000	680,000
Capital Lease Obligations	<u>400,247</u>	<u>--</u>	<u>214,448</u>	<u>185,799</u>	<u>185,799</u>
Total Non-Current Liabilities	<u>\$ 23,900,247</u>	<u>\$ --</u>	<u>\$ 884,448</u>	<u>\$ 23,015,799</u>	<u>\$ 865,799</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE J - NON-CURRENT LIABILITIES - Continued

Bonds Payable

The Hospital issued \$6,780,000 of Hospital Revenue Bonds, Series 2010A in December, 2010, to pay for the costs of expansion and renovation of the Hospital. The bonds are payable from the revenues of the Hospital. A lump sum payment of \$6,780,000 is due June 1, 2035. The interest rate is 7.25% and is due semi-annually.

The Hospital issued \$16,720,000 of Hospital Revenue Bonds, Series 2010B in December, 2010, to pay for the costs of the expansion and renovation of the Hospital. The bonds are payable from the revenues of the Hospital. The bonds mature in annual installments beginning in June, 2013, through June, 2026, and installments due June, 2028 and June, 2033, with an interest rate of 2.6% - 10.0%. The Hospital is eligible to receive a 45% subsidy of interest paid from the Federal Government each year.

The annual debt service on the bonds is expected to require less than 34% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$2,562,000 and \$7,544,000 respectively.

Under the terms of the bonds, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The bonds also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

Capital Leases

The Hospital has entered into three capital leases for the purchase of equipment. The leases carried interest rates of 6.93% to 20.34%. The leases matured from August, 2013 to January, 2014.

Scheduled principal and interest repayments on the long-term debt are as follows:

Year ending June 30,	Long-Term Debt	
	Principal	Interest
2015	\$ 695,000	\$ 1,670,438
2016	710,000	1,642,638
2017	730,000	1,608,912
2018	750,000	1,569,858
2019	775,000	1,526,732
2020-2024	4,315,000	6,812,507
2025-2029	3,655,000	5,131,770
2030-2034	3,740,000	3,953,750
2035	6,780,000	491,550
	<u>\$ 22,150,000</u>	<u>\$ 24,408,155</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE K - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include electronic health records (EHR) incentive payments, construction settlement proceeds, and deferred succeeding year property tax. The EHR revenue will be recognized over four years, as the related equipment is depreciated. The construction settlement proceeds were used for reconstructing portions of the newly constructed patient rooms. The deferred succeeding year property tax represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Amounts deferred and sources are listed below:

	<u>2014</u>	<u>2013</u>
Electronic health records incentive	\$ 651,000	\$ 767,000
Construction settlement	--	361,268
Deferred succeeding year property tax	<u>2,143,000</u>	<u>2,107,000</u>
	<u>\$ 2,794,000</u>	<u>\$ 3,235,268</u>

NOTE L - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% of their annual salary and the Hospital is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were approximately \$1,234,000, \$1,245,400, and \$1,176,400, respectively, equal to the required contributions for each year.

NOTE M - DEFERRED COMPENSATION PLAN

The Hospital offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows Hospital employees to defer a portion of their current salary until future years. The Hospital matches a portion of employee contributions to the employees' accounts. The Hospital's contribution expense totaled approximately \$220,300 and \$227,500 for the years ended June 30, 2014 and 2013, respectively. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the independent contractor for investment. The plan is designed so that each participant retains investment control of his/her individual account. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE M - DEFERRED COMPENSATION PLAN - Continued

The Hospital's fiduciary responsibility is limited to due care in selecting contractors to administer the Plan. These contractors are responsible for withholdings and W-2s when the participants receive payments. The contractors are also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2014 was approximately \$12,172,000 (\$10,886,000 at June 30, 2013). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE N - RELATED PARTIES

Southwest Iowa Mental Health Center

The Hospital has entered into a sharing agreement with Southwest Iowa Mental Health Center, pursuant to Chapter 28E of the Iowa Code, to deliver mental health services in the area. Under the agreement, all non-physician personnel became employees of the Hospital. The Mental Health Center agreed to purchase all non-physician services necessary for the Center's operations from the Hospital. Tax funds collected by the Hospital for a portion of the cost of the Center's non-physician personnel result in credits being passed through to the Center. The Hospital agreed to purchase all mental health physician services necessary for its inpatient operation from the Center.

The Hospital has agreed to provide operating capital and fund operating deficits of the Center. During the year ended June 30, 2014, the Hospital provided \$50,000 (\$50,000 in 2013) of operating capital. The Center had net income in 2014 of \$113,264 (income of \$18,593 in 2013) without the Hospital's funding.

Below is a summary of the activity and amounts due under the agreement with the Mental Health Center as of June 30:

	<u>2014</u>	<u>2013</u>
Hospital expense to Mental Health Center for physicians	\$ <u>267,174</u>	\$ <u>309,861</u>
Support and net deficit funding from Hospital to Mental Health Center	\$ <u>95,035</u>	\$ <u>113,388</u>
Hospital revenue for Mental Health Center personnel costs and insurance	\$ <u>1,410,288</u>	\$ <u>1,257,836</u>
Owed to Hospital by the Mental Health Center	\$ <u>882,327</u>	\$ <u>826,735</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE N - RELATED PARTIES - Continued

The financial arrangements for the 2014-2015 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$396,000, which includes financial support and payment for physician services. The Center agreed to pay the Hospital approximately \$1,227,000 for non-physician services. Future financial arrangements will be determined annually based on a review of actual operations and needs.

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Myrtue Medical Center of Harlan and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2014</u>	<u>2013</u>
Services purchased from HPSI	\$ <u>121,844</u>	\$ <u>120,457</u>
Services and supplies provided to HPSI	\$ <u>155,713</u>	\$ <u>173,759</u>
Amount due from HPSI	\$ <u>231,985</u>	\$ <u>190,484</u>
Member share of net assets	\$ <u>465,322</u>	\$ <u>452,158</u>

The member share of net assets is included in other noncurrent assets and the amount due from HPSI is included in other receivables on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Hospital and the Office of the State Auditor.

Cass County Memorial Hospital Foundation

Cass County Memorial Hospital Foundation is a separate not-for-profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation. During the year ended June 30, 2014, contributions received from this organization were approximately \$41,000 (\$227,000 for 2013).



CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE O - CASS COUNTY MEDICAL CLINICS

The Hospital and local physicians developed a not-for-profit corporation, Cass County Medical Clinics, Inc. (CCMC), to operate three local medical practices (Atlantic Medical Center, Eye Associates and Southwest Iowa Surgery). CCMC leases medical office space, and purchases medical services and supplies from the Hospital. CCMC also purchases health insurance coverage through the Hospital's self-funded group health insurance plan. The Hospital provided start up and operating capital to CCMC over several years, for the benefit of the community. During the year ended June 30, 2014, the Hospital recorded an allowance of \$180,000 against the advances (\$180,000 for 2013). The operations of CCMC are managed by the Hospital and physicians. The Hospital has pledged to support CCMC as may be necessary in the future.

The Hospital contracts with the physicians of CCMC-Atlantic Medical Center for the operation of its four rural health clinics. In addition, the Hospital began to purchase emergency room physician coverage during fiscal year 2013. The Hospital purchases the physician services based on a budgeted amount, set prior to the start of each year. After the completion of the year, an analysis is prepared to determine any net settlement.

Transactions between the Hospital and CCMC are listed below:

	<u>2014</u>	<u>2013</u>
<u>CCMC purchases from Hospital</u>		
Rent of medical office space	\$ 65,274	\$ 65,274
Medical services, insurance, and other expenses	132,667	89,534
Health insurance	<u>267,606</u>	<u>238,290</u>
	<u>\$ 465,547</u>	<u>\$ 393,098</u>
<u>Hospital purchases from CCMC</u>		
Physician clinic services	\$ 2,345,000	\$ 2,240,000
Physician emergency room services	<u>469,837</u>	<u>343,172</u>
	<u>\$ 2,814,837</u>	<u>\$ 2,583,172</u>

Following is a schedule of the investment in CCMC as of June 30:

	<u>2014</u>	<u>2013</u>
Purchases of physician practices	\$ 84,944	\$ 84,944
Advances of operating capital, and unpaid rent and insurance	<u>7,248</u>	<u>39,447</u>
	<u>\$ 92,192</u>	<u>\$ 124,391</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE P - OTHER POST EMPLOYMENT BENEFITS (OPEB)

**Plan Description:** As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are 217 active employees and 12 retirees currently covered by the health insurance plan.

**Funding Policy:** The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

**Net OPEB Obligation:** Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. Therefore the Hospital has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

NOTE Q - COMMITMENTS AND CONTINGENCIES

Self-Funded Health Insurance

The Hospital has established an employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. The estimated amount of unpaid claims at June 30, 2014 is \$200,000 (\$225,000 at June 30, 2013), which is reported in other current liabilities.

Construction in Progress

As of June 30, 2014, the Hospital incurred costs totaling \$89,666, primarily to replace the various signs of the health system. The estimated cost to complete the project is less than \$50,000, which will be financed with internally generated funds.

Computer System Project and Equipment

As of June 30, 2014, the Hospital incurred fees of \$97,592 for various computer hardware and software applications, and equipment that had not been completed and placed in service. The estimated cost to complete the items is \$55,000.

Notes Receivable

Reported as part of other noncurrent assets on the balance sheets are notes receivable with a balance of \$88,049 as of June 30, 2014 (\$120,073 as of June 30, 2013). The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE Q - COMMITMENTS AND CONTINGENCIES - Continued

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Cass County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Subsequent Events

The Hospital has evaluated all subsequent events through October 8, 2014, the date the financial statements were available to be issued.

NOTE R - RECLASSIFICATION OF BALANCES

Certain titles and items on the statement of net position as of June 30, 2013 have been reclassified to be comparable to the amounts and titles reported at June 30, 2014. The changes had no effect on the total assets or the total of the combined liabilities, deferred inflows of resources, and net position of the Hospital.

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## REQUIRED SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL  
Budgetary Comparison Schedule  
Year Ended June 30, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for interest and net position differently for financial statement and budget purposes. For the year ended June 30, 2014, the Hospital's expenditures did not exceed the amount budgeted.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 2,161,848	\$ --	\$ 2,161,848
Other revenues	35,170,921	--	35,170,921
Transfers in (out), net	<u>504,128</u>	<u>( 504,128)</u>	<u>--</u>
	37,836,897	<u>( 504,128)</u>	37,332,769
Expenses	<u>34,674,989</u>	<u>--</u>	<u>34,674,989</u>
Net	3,161,908	<u>( 504,128)</u>	2,657,780
Balance beginning of year	<u>26,515,536</u>	<u>2,521,516</u>	<u>29,037,052</u>
Balance end of year	<u>\$ 29,677,444</u>	<u>\$ 2,017,388</u>	<u>\$ 31,694,832</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 2,161,848	\$ --	\$ 2,161,848	\$ 2,107,234
Other revenues	<u>35,170,921</u>	<u>1,620,312</u>	<u>36,791,233</u>	<u>37,003,861</u>
	37,332,769	1,620,312	38,953,081	39,111,095
Expenses	<u>34,674,989</u>	<u>1,620,312</u>	<u>36,295,301</u>	<u>37,895,950</u>
Net	2,657,780	--	2,657,780	1,215,145
Balance beginning of year	<u>29,037,052</u>	<u>( 448,055)</u>	<u>28,588,997</u>	<u>28,588,997</u>
Balance end of year	<u>\$ 31,694,832</u>	<u>\$( 448,055)</u>	<u>\$ 31,246,777</u>	<u>\$ 29,804,142</u>

See Independent Auditor's Report.

## SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL  
Patient Receivables  
June 30,

Analysis of Aging:

Days Since Discharge	2014		2013	
	Amount	Percent to Total	Amount	Percent to Total
0 - 30	\$ 1,973,814	31.8%	\$ 1,959,271	32.0%
31 - 60	668,038	10.8	639,344	10.4
61 - 90	354,949	5.7	432,294	7.0
91 - 120	311,564	5.0	310,586	5.1
121 and over	696,708	11.2	812,366	13.3
	<u>4,005,073</u>	<u>64.5</u>	<u>4,153,861</u>	<u>67.8</u>
In hospital	1,172,191	18.9	1,043,336	17.0
Total hospital	<u>5,177,264</u>	<u>83.4</u>	<u>5,197,197</u>	<u>84.8</u>
Rural Health Clinic	<u>1,034,099</u>	<u>16.6</u>	<u>932,754</u>	<u>15.2</u>
	<u>6,211,363</u>	<u>100.0%</u>	<u>6,129,951</u>	<u>100.0%</u>

Less:

Allowance for doubtful accounts - hospital	386,000	450,000
Allowance for doubtful accounts - RHC	355,000	320,000
Allowance for contractual adjustments - hospital	<u>1,061,000</u>	<u>1,105,000</u>
	<u>\$ 4,409,363</u>	<u>\$ 4,254,951</u>

Hospital Allowance for Doubtful Accounts:

	Year ended June 30,	
	2014	2013
Balance, beginning	\$ 450,000	\$ 327,000
Provision for bad debts	2,881,265	2,733,410
Recoveries of accounts previously written off	<u>414,587</u>	<u>420,640</u>
	<u>3,745,852</u>	<u>3,481,050</u>
Accounts written off	<u>3,359,852</u>	<u>3,031,050</u>
Balance, ending	<u>\$ 386,000</u>	<u>\$ 450,000</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Other Receivables/Inventory/Prepaid Expense  
June 30,

	<u>2014</u>	<u>2013</u>
<u>Other Receivables</u>		
Shared services	\$ 125,361	\$ 124,191
Health Partners of Southwest Iowa	231,985	190,484
Lifeline	8,146	41,344
Southwest Iowa Mental Health Center	882,327	826,735
Other	<u>490,155</u>	<u>520,632</u>
	<u>\$ 1,737,974</u>	<u>\$ 1,703,386</u>
 <u>Inventory</u>		
General stores	\$ 71,825	\$ 59,543
Pharmacy	435,643	419,754
Laboratory	74,927	78,689
Rural Health Clinic	15,000	15,000
Dietary	6,285	7,211
Fuel oil	<u>9,773</u>	<u>8,719</u>
	<u>\$ 613,453</u>	<u>\$ 588,916</u>
 <u>Prepaid Expense</u>		
Dues	\$ 17,490	\$ 17,280
Insurance	53,128	45,150
Maintenance agreements and other	<u>561,011</u>	<u>439,106</u>
	<u>\$ 631,629</u>	<u>\$ 501,536</u>

See Independent Auditor's Report.



CASS COUNTY MEMORIAL HOSPITAL  
Patient Service Revenue  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Daily Patient Services:		
Medical and surgical	\$ 1,633,681	\$ 1,678,051
Obstetric	218,714	263,840
Intensive care	465,007	548,344
Nursery	140,126	154,688
Psychiatric services	<u>1,523,161</u>	<u>1,934,654</u>
	3,980,689	4,579,577
Other Nursing Services:		
Operating room	5,792,071	5,089,011
Recovery room	811,509	729,498
Delivery and labor rooms	269,490	261,572
Central services and supply	3,071,388	2,750,064
Intravenous therapy	379,752	277,024
Emergency service	2,551,975	2,291,182
Oncology service	254,189	248,343
Enterstomal therapy	<u>120,650</u>	<u>95,221</u>
	13,251,024	11,741,915
Other Professional Services:		
Emergency room physicians	1,266,267	1,266,267
Laboratory	6,960,103	6,767,459
Blood bank	76,792	104,821
Electrocardiology	235,303	204,039
Cardiac stress testing	131,794	126,035
Ambulatory electrocardiology	142,418	135,975
Radiology	2,330,812	2,254,269
CT scanning	3,584,566	3,012,946
MRI scanning	1,437,280	1,321,047
Nuclear medicine and ultrasound	1,387,019	1,381,956
Pharmacy	6,301,018	5,318,489
Anesthesia	1,635,399	1,811,680
Respiratory care	1,075,424	1,282,193
Physical therapy	1,663,037	1,342,386
Speech therapy	198,288	172,452
Occupational therapy	331,992	295,012
Cardiac rehabilitation	284,507	217,888
Diabetic center	58,226	66,256
Sleep study	315,921	225,888
Rural Health Clinics	<u>6,775,444</u>	<u>6,792,867</u>
	36,191,610	34,099,925
	<u>\$ 53,423,323</u>	<u>\$ 50,421,417</u>

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CASS COUNTY MEMORIAL HOSPITAL  
Patient Service Revenue - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
SUMMARY		
Inpatient	\$ 6,110,339	\$ 6,167,190
Swing Bed	1,536,529	1,731,735
Psychiatric Services	1,874,803	2,189,593
Outpatient	37,126,208	33,540,032
Rural Health Clinics	<u>6,775,444</u>	<u>6,792,867</u>
	<u>\$ 53,423,323</u>	<u>\$ 50,421,417</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Revenue and Related Adjustments  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 53,423,323	\$ 50,421,417
Contractual adjustments - hospital	( 16,026,751)	( 13,840,833)
Provision for bad debts - hospital	( 2,881,265)	( 2,733,410)
Provision for contractual adjustment and bad debts - RHC	( 641,394)	( 722,831)
Uncompensated care	<u>( 447,332)</u>	<u>( 453,187)</u>
	<u>\$ 33,426,581</u>	<u>\$ 32,671,156</u>
Other Revenue:		
Interest income on operating funds	\$ 17,581	\$ 13,047
Meals sold to employees and guests	166,537	180,309
Meals on wheels	58,832	59,672
Visiting physician clinic rent	211,156	218,257
Operating grants	29,872	139,376
Medical record transcripts	2,167	1,738
VHA participation	43,339	56,361
Biomedical service	32,235	27,526
Nursing education	3,212	3,890
Other	<u>73,411</u>	<u>98,823</u>
	<u>\$ 638,342</u>	<u>\$ 798,999</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Nursing Administration:		
Salaries and wages	\$ 216,417	\$ 174,000
Supplies and other expense	<u>3,510</u>	<u>3,430</u>
	219,927	177,430
In-Service Training:		
Salaries and wages	72,374	73,931
Supplies and other expense	<u>44,356</u>	<u>36,788</u>
	116,730	110,719
Quality Assurance:		
Salaries and wages	235,312	222,421
Supplies and other expense	<u>11,944</u>	<u>109,867</u>
	247,256	332,288
Nursing Supervision:		
Salaries and wages	289,238	267,168
Supplies and other expense	<u>176</u>	<u>119</u>
	289,414	267,287
Medical and Surgical:		
Salaries and wages	1,040,857	1,099,656
Supplies and other expense	<u>57,934</u>	<u>72,090</u>
	1,098,791	1,171,746
Psychiatric Services:		
Salaries and wages	658,828	835,658
Professional fees	267,174	309,861
Supplies and other expense	<u>20,277</u>	<u>19,490</u>
	946,279	1,165,009
Intensive Care:		
Salaries and wages	317,738	380,633
Supplies and other expense	<u>9,203</u>	<u>4,209</u>
	326,941	384,842
Obstetric:		
Salaries and wages	258,327	298,802
Supplies and other expense	<u>30,404</u>	<u>46,814</u>
	288,731	345,616
Nursery:		
Salaries and wages	134,623	155,765

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CASS COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Operating Room:		
Salaries and wages	\$ 491,482	\$ 505,241
Professional fees	58,813	48,784
Supplies and other expense	<u>200,860</u>	<u>155,034</u>
	751,155	709,059
Recovery Room:		
Salaries and wages	50,012	48,823
Supplies and other expense	<u>--</u>	<u>523</u>
	50,012	49,346
Delivery and Labor Rooms:		
Salaries and wages	59,120	68,405
Central Services and Supply:		
Salaries and wages	29,666	33,309
Supplies sold to patients	614,557	555,914
Supplies and other expense	<u>8,089</u>	<u>8,065</u>
	652,312	597,288
Intravenous Therapy:		
Solutions	9,071	9,355
Supplies and other expense	<u>55,535</u>	<u>63,872</u>
	64,606	73,227
Emergency Room:		
Salaries and wages	410,118	358,508
Supplies and other expense	<u>55,233</u>	<u>42,393</u>
	465,351	400,901
Outpatient Clinics:		
Salaries and wages	456,859	457,852
Supplies and other expense	<u>39,327</u>	<u>37,874</u>
	496,186	495,726
	<u>\$ 6,207,434</u>	<u>\$ 6,504,654</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Emergency Room Physicians:		
Salaries and wages	\$ 196,950	\$ 214,681
Professional fees	<u>731,228</u>	<u>542,229</u>
	928,178	756,910
Laboratory:		
Salaries and wages	677,127	763,538
Professional fees	348,154	405,404
Supplies and other expense	382,805	345,125
Cost of chemistry reagents	<u>371,116</u>	<u>348,943</u>
	1,779,202	1,863,010
Blood Bank:		
Cost of blood	87,400	124,184
Electrocardiology:		
Salaries and wages	10,932	9,603
Cardiac Stress Testing:		
Salaries and wages	6,179	5,600
Professional fees	1,064	560
Supplies and other expense	<u>775</u>	<u>947</u>
	8,018	7,107
Ambulatory Electrocardiology:		
Salaries and wages	11,154	10,143
Purchased services	8,936	8,080
Supplies and other expense	<u>172</u>	<u>308</u>
	20,262	18,531
Radiology:		
Salaries and wages	334,228	346,299
Professional fees	5,184	5,135
Cost of film	578	552
Supplies and other expense	<u>318,309</u>	<u>217,905</u>
	658,299	569,891
CT and MRI Scanning:		
Salaries and wages	127,263	78,373
Purchased services	238,822	151,538
Supplies and other expense	<u>159,773</u>	<u>128,740</u>
	525,858	358,651

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Nuclear Medicine and Ultrasound:		
Salaries and wages	\$ 105,987	\$ 104,113
Purchased services	134,628	123,792
Supplies and other expense	<u>41,805</u>	<u>49,437</u>
	282,420	277,342
Pharmacy:		
Salaries and wages	588,291	589,861
Drugs	1,145,743	958,148
Supplies and other expense	<u>182,932</u>	<u>158,456</u>
	1,916,966	1,706,465
Anesthesia:		
Professional fees	597,788	628,411
Supplies and other expense	<u>1,601</u>	<u>14,390</u>
	599,389	642,801
Respiratory Care:		
Salaries and wages	227,784	225,351
Oxygen	20,329	20,544
Supplies and other expense	<u>8,951</u>	<u>7,305</u>
	257,064	253,200
Physical Therapy:		
Salaries and wages	5,316	349,578
Professional fees	619,301	16,518
Supplies and other expense	<u>19,925</u>	<u>57,446</u>
	644,542	423,542
Occupational Therapy:		
Salaries and wages	104	109,955
Professional fees	117,154	--
Supplies and other expense	<u>12,298</u>	<u>13,951</u>
	129,556	123,906
Speech Therapy:		
Salaries and wages	--	50,045
Professional fees	113,248	--
Supplies and other expense	<u>644</u>	<u>2,623</u>
	113,892	52,668

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Cardiac Rehabilitation:		
Salaries and wages	\$ 153,155	\$ 145,880
Supplies and other expense	<u>35,185</u>	<u>9,842</u>
	188,340	155,722
Diabetic Center:		
Salaries and wages	105,301	111,292
Supplies and other expense	<u>6,761</u>	<u>13,198</u>
	112,062	124,490
Medical Records:		
Salaries and wages	302,283	351,780
Supplies and other expense	58,731	57,612
Microfilming services purchased	<u>9,727</u>	<u>2,146</u>
	370,741	411,538
Medical Education - Community Orientation Program:		
Supplies and other expense	1,332	4,292
Care Coordination:		
Salaries and wages	178,492	167,803
Supplies and other expense	<u>23,112</u>	<u>21,535</u>
	201,604	189,338
Sleep Studies:		
Purchased services	64,875	71,000
Supplies and other expense	<u>--</u>	<u>1</u>
	64,875	71,001

(continued next page)



CASS COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Rural Health Clinic - Atlantic:		
Salaries and wages	\$ 1,794,321	\$ 1,838,657
Professional fees	2,248,397	2,128,404
Purchased services	27,882	50,226
Facility costs	61,339	46,510
Supplies and other expense	<u>250,211</u>	<u>241,337</u>
	4,382,150	4,305,134
Rural Health Clinic - Anita:		
Salaries and wages	87,661	81,063
Professional fees	27,722	29,826
Facility costs	20,084	20,621
Supplies and other expense	<u>7,622</u>	<u>9,237</u>
	143,089	140,747
Rural Health Clinic - Massena:		
Salaries and wages	56,807	56,622
Professional fees	34,474	42,053
Facility costs	9,822	5,788
Supplies and other expense	<u>10,380</u>	<u>15,307</u>
	111,483	119,770
Rural Health Clinic - Griswold:		
Salaries and wages	66,012	67,644
Professional fees	60,617	62,885
Facility costs	20,403	21,134
Supplies and other expense	<u>8,159</u>	<u>15,111</u>
	155,191	166,774
	<u>\$ 13,692,845</u>	<u>\$ 12,876,617</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
General Service Expenses  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Dietary:		
Salaries and wages	\$ 441,355	\$ 435,420
Food	228,106	233,053
Supplies and other expense	<u>103,126</u>	<u>56,115</u>
	772,587	724,588
Operation of Plant:		
Salaries and wages	393,634	379,821
Electricity	173,892	169,805
Natural gas and fuel oil	123,334	96,843
Water	36,643	45,225
Supplies and other expense	<u>301,034</u>	<u>274,865</u>
	1,028,537	966,559
Clinical Equipment:		
Contracted services	104,303	99,120
Supplies and other expense	<u>4,746</u>	<u>4,083</u>
	109,049	103,203
Housekeeping:		
Salaries and wages	390,256	375,993
Contracted management services	225,698	212,765
Supplies and other expense	<u>54,730</u>	<u>58,075</u>
	670,684	646,833
Laundry and Linen:		
Salaries and wages	25,257	37,654
Contracted management services	22,531	22,218
Supplies and other expense	66,063	65,680
Linens	<u>1,404</u>	<u>1,411</u>
	<u>115,255</u>	<u>126,963</u>
	<u>\$ 2,696,112</u>	<u>\$ 2,568,146</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Administrative Services:		
Salaries and wages	\$ 293,676	\$ 294,762
Dues and subscriptions	38,498	44,264
Legal publications and advertising	7,956	11,016
Consulting fees	84,116	173,447
Physician recruiting	274,082	232,578
Supplies and other expense	<u>179,639</u>	<u>178,218</u>
	877,967	934,285
Fiscal Services:		
Salaries and wages	376,516	356,077
Telephone	53,083	38,961
Freight and postage	18,173	13,697
Professional fees	39,427	44,965
Supplies and other expense	<u>162,878</u>	<u>142,870</u>
	650,077	596,570
Admissions:		
Salaries and wages	288,803	294,952
Supplies and other expense	<u>10,600</u>	<u>9,008</u>
	299,403	303,960
Credit and Collections:		
Salaries and wages	183,771	177,699
Supplies and other expense	105,639	82,218
Collection expense	<u>131,592</u>	<u>118,230</u>
	421,002	378,147
Information Systems:		
Salaries and wages	651,655	628,157
Professional fees	5,623	--
Supplies and other expense	<u>495,201</u>	<u>422,072</u>
	1,152,479	1,050,229
Human Resources:		
Salaries and wages	235,729	209,790
Supplies and other expense	<u>122,863</u>	<u>116,319</u>
	358,592	326,109
Public Relations:		
Salaries and wages	65,039	66,784
Supplies and other expense	<u>116,803</u>	<u>95,811</u>
	181,842	162,595
Purchasing:		
Salaries and wages	133,437	131,834
Supplies and other expense	<u>48,156</u>	<u>36,629</u>
	181,593	168,463

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Employee Welfare:		
Social Security tax	\$ 947,194	\$ 993,550
Iowa Public Employees' Retirement System	1,233,977	1,245,443
Group health insurance	1,746,896	2,050,210
Workers' compensation insurance	115,219	115,474
Deferred compensation	220,271	227,468
Other	<u>113,966</u>	<u>127,603</u>
	4,377,523	4,759,748
Insurance:		
Liability and property insurance	175,201	151,080
Wellness:		
Supplies and other expense	13,701	18,567
Compliance:		
Supplies and other expense	9,588	20,004
Customer Service:		
Salaries and wages	12,146	11,554
Supplies and other expense	<u>111,231</u>	<u>104,085</u>
	123,377	115,639
Foundation:		
Salaries and wages	<u>41,945</u>	<u>33,369</u>
	<u>\$ 8,864,290</u>	<u>\$ 9,018,765</u>

Summary of Expenses

Salaries and wages	\$ 13,289,537	\$ 14,091,919
Employee benefits	4,377,523	4,759,748
Professional fees	5,359,484	4,438,482
Supplies and other expense	<u>8,434,137</u>	<u>7,678,033</u>
	<u>\$ 31,460,681</u>	<u>\$ 30,968,182</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Acute Care:					
Admissions	540	590	620	611	670
Discharges	539	587	622	611	673
Patient Days	1,792	2,058	1,982	1,807	1,958
Average Length of Stay	3.32	3.51	3.19	2.96	2.91
Average Occupied Beds	4.9	5.6	5.4	5.0	5.4
Swing Bed:					
Admissions	164	189	229	208	247
Discharges	162	190	231	209	244
SNF Days	1,192	1,451	1,843	1,633	1,639
Average Occupied Beds	3.3	4.0	5.0	4.5	4.5
Combined Average Occupied Beds	8.2	9.6	10.4	9.5	9.9
Psychiatric Unit:					
Admissions	162	211	220	271	258
Discharges	168	214	214	274	255
Patient Days	1,023	1,021	1,098	976	1,017
Average Occupied Beds	2.8	2.8	3.0	2.7	2.8
Total Average Occupied Beds	11.0	12.4	13.4	12.2	12.7
Nursery Days	287	333	268	297	249
Outpatient Occasions of Service	59,367	61,836	63,791	63,279	63,719
Physician Clinic Visits	42,092	42,225	40,969	38,672	39,384

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Comparative Statements of Net Position  
June 30,

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash	\$ 14,062,341	\$ 11,889,026
Patient receivables, net	4,409,363	4,254,951
Other receivables	1,737,974	1,703,386
Inventory	613,453	588,916
Prepaid expense	631,629	501,536
Succeeding year property tax receivable	2,143,000	2,107,000
Internally designated assets	874,941	2,093,415
Total current assets	<u>24,472,701</u>	<u>23,138,230</u>
Other Assets:		
Designated and restricted assets, net	2,568,868	3,617,065
Capital assets, net	32,402,574	32,374,635
Other noncurrent assets	867,879	918,938
Total other assets	<u>35,839,321</u>	<u>36,910,638</u>
	<u>\$ 60,312,022</u>	<u>\$ 60,048,868</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 695,000	\$ 865,799
Accounts payable	710,516	1,745,422
Accrued expenses	2,531,674	2,579,327
Estimated third-party payor settlements	431,000	436,000
Total current liabilities	<u>4,368,190</u>	<u>5,626,548</u>
Capital Lease Obligations, Net	--	--
Bonds Payable, Net	21,455,000	22,150,000
Deferred Inflows of Resources:		
Deferred Revenue	2,794,000	3,235,268
Net Position	<u>31,694,832</u>	<u>29,037,052</u>
	<u>\$ 60,312,022</u>	<u>\$ 60,048,868</u>

See Independent Auditor's Report.

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 8,915,658	\$ 7,256,381	\$ 3,636,087
4,767,569	4,067,652	5,064,426
1,534,699	872,088	913,607
450,895	520,233	572,468
550,649	521,870	449,963
2,013,000	1,950,000	1,851,000
2,060,917	486,059	493,092
<u>20,293,387</u>	<u>15,674,283</u>	<u>12,980,643</u>
6,559,492	22,588,859	5,992,362
29,298,988	13,400,851	9,313,124
1,046,326	924,221	1,085,656
<u>36,904,806</u>	<u>36,913,931</u>	<u>16,391,142</u>
<u>\$ 57,198,193</u>	<u>\$ 52,588,214</u>	<u>\$ 29,371,785</u>
\$ 872,942	\$ 241,129	\$ 460,393
1,586,575	616,749	650,584
2,565,321	2,272,731	2,131,356
751,000	449,000	660,000
<u>5,775,838</u>	<u>3,579,609</u>	<u>3,902,333</u>
197,305	319,026	529,706
22,830,000	23,500,000	--
2,013,000	1,950,000	1,851,000
<u>26,382,050</u>	<u>23,239,579</u>	<u>23,088,746</u>
<u>\$ 57,198,193</u>	<u>\$ 52,588,214</u>	<u>\$ 29,371,785</u>

CASS COUNTY MEMORIAL HOSPITAL  
Comparative Statements of Revenues and Expenses  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Patient Service Revenue	\$ 53,423,323	\$ 50,421,417
Adjustments to Patient Service Revenue	<u>( 19,996,742)</u>	<u>( 17,750,261)</u>
Net Patient Service Revenue	33,426,581	32,671,156
Other Revenue	<u>638,342</u>	<u>798,999</u>
Total Revenue	34,064,923	33,470,155
Expenses	<u>34,674,989</u>	<u>33,855,317</u>
Operating Loss	( 610,066)	( 385,162)
Non-Operating Revenue, Net	3,183,874	2,771,414
Capital Grants and Contributions	<u>83,972</u>	<u>268,750</u>
Excess of Revenues Over Expenses	<u>\$ 2,657,780</u>	<u>\$ 2,655,002</u>

See Independent Auditor's Report.



<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 46,792,586	\$ 44,871,636	\$ 44,929,206
<u>( 16,582,150)</u>	<u>( 16,961,710)</u>	<u>( 15,406,862)</u>
30,210,436	27,909,926	29,522,344
<u>758,766</u>	<u>844,730</u>	<u>1,142,048</u>
30,969,202	28,754,656	30,664,392
<u>31,181,130</u>	<u>31,436,858</u>	<u>31,838,929</u>
( 211,928)	( 2,682,202)	( 1,174,537)
3,269,283	2,746,127	1,865,380
<u>85,116</u>	<u>86,908</u>	<u>84,914</u>
<u>\$ 3,142,471</u>	<u>\$ 150,833</u>	<u>\$ 775,757</u>

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees  
Cass County Memorial Hospital  
Atlantic, Iowa

We have audited the financial statements of Cass County Memorial Hospital as of and for the year ended June 30, 2014, and have issued our report thereon dated October 8, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Cass County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Cass County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees  
Cass County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 14-I-A to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cass County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Response to Findings**

Cass County Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*G. M. Wold, Ben, Kuhn & W. P. C.*

Atlantic, Iowa  
October 8, 2014

CASS COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2014

PART I - SIGNIFICANT DEFICIENCIES

14-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*

PART II - REQUIRED STATUTORY REPORTING

14-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2014 did not exceed amounts budgeted.

14-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Employee Recreation Club	Employee holiday party	\$ 750

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

CASS COUNTY MEMORIAL HOSPITAL  
Schedule of Findings - Continued  
Year ended June 30, 2014

PART II - REQUIRED STATUTORY REPORTING - Continued

14-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

14-II-D Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

14-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

14-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

\* \* \*